

Response to Grid West Proponents' Critique of Henwood's Grid West Cost, Benefit and Alternatives Study

(Response prepared by Henwood Energy Services)

Regarding the Specific Points of Critique:

- 1) **"Cost Estimate"**. The Grid West Proponents state that Henwood adopted a PPC analysis that was based on the average costs of existing RTOs. This is true. The Grid West Proponents make the case that they do not believe this is a good indicator of Grid West costs because, for example:
 - a. Grid West is not envisioned to be a "full-service" RTO,
 - b. Grid West does not anticipate going through significant market redesign efforts done by others,
 - c. Grid West can benefit from experience of others,
 - d. The PPC work ignored work done by Structure, and
 - e. Grid West has a stated intent of rigorous cost control.

While these are interesting points, Henwood would be reluctant to apply significant reductions in the estimated cost of Grid West based on these points for the following reasons:

- 1) In October of 2004 FERC staff put out a report in Docket No. PL04-16-000 in which they estimate the costs of an RTO. The primary focus of the report is on a Day 1 RTO. A Day 1 RTO is a bare-boned RTO intended to address only reliability issues and not Day 2 activity. In fact, the report states that Day 1 RTO activities will not meet the FERC 8 minimum functions that FERC requires prior to being formally accepted as an RTO by FERC. It is Henwood's understanding that Grid West intends to go beyond Day 1 activities and actually perform many Day 2 activities. The FERC staff report did indicate on three of its graphics what it thought a Day 2 RTO would cost. Figures 3 and 4 of that report indicate that Day 2 RTO operating costs will likely be in the \$200 million per year range. Figure 2 indicates that Day 2 capital costs (in addition to the operating costs) may well be an additional \$200 million (to be amortized over time). These FERC staff values take into account many of the items listed by the Grid West proponents.
- 2) Under the Grid West proposal, Grid West will be governed by an independent Board with FERC oversight. FERC itself is concerned that RTOs do not have an incentive to control costs (and are not controlling costs). This fact is evidenced by the FERC investigation of this matter that is currently underway. [Docket No. RM04-12-000].
- 3) Despite the best intentions of those currently working on the RTO, Henwood believes that the cost of the RTO will be out of their control once the Independent Board and FERC become the governing entities for Grid West. FERC itself can put requirements on the RTO which

cause cost increases. For example, FERC has ordered ISO New England to file and implement a FERC approved ICAP mechanism despite the vote of ISO members not to implement such a system. The members thought the ICAP would have little value with high cost, but FERC apparently disagrees.

- 4) Grid West members seem to place reliance on their ability to withdraw from Grid West if the activities or costs of Grid West move in unanticipated and undesired directions. Henwood believes that once Grid West is formed that it will be difficult for parties to drop out. In a recent bipartisan letter, U.S. Reps. George Nethercutt (R-Wash.) and Peter DeFazio (D-Ore.) questioned the proposed bylaws and said, “we don’t consider the threat of withdrawal to be comforting or to offer very compelling protection for consumers for the simple reason that we don’t think it will ever be exercised.” It is also interesting to note that FERC is apparently taking the position that once you join an RTO, then FERC may have the ability to require a participating entity to get FERC approval to drop out of the RTO.
- 5) Henwood has seen no definitive analysis prepared by Grid West Proponents that demonstrates how Grid West will be able to meet FERC minimum requirements for an RTO while holding costs significantly below \$200 million per year. Further, Henwood believes it will be very hard (likely impossible) for Grid West Proponents to set up a mechanism to control Grid West (and its future activities and costs) after Grid West is up and running with its Independent Board and FERC.

2. “Reliability Benefits Ignored.” The Grid West Proponents claim that Henwood ignored certain reliability benefits of Grid West. Henwood did not ignore reliability benefits. Instead, Henwood concluded that there would not likely be large reliability benefits brought about by the formation of Grid West. In Henwood’s view, the major benefits that could be legitimately attributed to Grid West have been captured in our study. We believe that other benefits are either speculative or can be achieved without Grid West.

For example, in Sections 10.9 and 10.10 of our report, Henwood discusses generation and transmission reliability issues. Henwood’s conclusion is that existing entities are behaving in a manner that provides reasonable assurance of reliability. Henwood believes that there is little evidence of a current reliability problem in the northwest. It would be difficult for an RTO to bring large benefits by improving on a problem that essentially does not exist. That being said, if it can be demonstrated that we have missed a major benefit that can be legitimately attributed to Grid West, we agree that the report would need to be modified.

The Grid West Proponents also mischaracterize Henwood’s discussion of the northeast blackout of 2003 and MISO’s role during that blackout. Henwood has

not stated that MISO caused the blackout. Henwood simply notes that FERC criticized MISO for not taking certain preventative actions during the series of events leading to the blackout. Henwood's point is that the mere existence of an RTO does not ensure the RTO will behave as it is supposed to behave. Previous blackouts in the northwest, northeast and elsewhere provide evidence that the problem is not that we need a new organization, but that we need those in the responsible organizations (either those that existed in the past, exist today, or may exist in the future) to fulfill their responsibilities. The lack of problems in the northwest since 1996 indicates that those organizations that exist today are fulfilling their responsibilities and that a new organization is not needed for reliability purposes.

3. **"Independent Review Impossible"**

- a. Grid West Proponents indicate that the Henwood Final Report does not provide sufficient detail for independent review of the methodology, assumptions or data used in this study. However, Henwood has indicated to Grid West Proponents that it is willing to spend time with them to go through these details as long as we are compensated for our time in doing so. Henwood has suggested that Grid West Proponents discuss this matter directly with Snohomish PUD.
- b. Grid West Proponents are concerned that Henwood modeling of a Grid West footprint may lead to significant repercussions on the economic results. Henwood does not believe that this is the case and suggests that Grid West Proponents and Snohomish agree on a method for pursuing these questions as discussed in (a) above.
- c. Grid West Proponents are concerned that Figures C-11 and C-22 indicate that Henwood modeling is significantly understating the commercial use of one of the largest transmission paths in the Western Interconnection. Henwood has reviewed those figures and determined that they were produced in error. These figures have been revised and made available by Snohomish. The error is not in the modeling performed or the numeric results reported. The error is in pulling output from the PowerWorld model for purposes of presenting the results graphically.¹

¹ When pulling data out of the PowerWorld model to demonstrate what line/path loadings are in the Henwood analyses, Henwood erroneously assumed that elements making up the PDCI path were appropriately identified in the data base received from WECC. However, upon receiving comments from the Grid West Proponents, Henwood investigated and learned that the PDCI path elements identified in the WECC data base were not the PDCI path elements Henwood used in modeling Grid West. When the correct elements were identified and queried, the PDCI path loading reflects a much higher usage in many hours of the year as Grid West Proponents expected.